Counseling in Uncertainty: The Law of Tying & Intellectual Property

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What's the issue?

- Tying is said to be illegal per se, and market power for purposes of the per se rule is presumed where the tying product involves a patent or copyright

  - "It is far too late in the history of our antitrust jurisprudence to question the proposition that certain tying arrangements pose an unacceptable risk of stifling competition and therefore are unreasonable 'per se.'" *Jefferson Parish,* 466 U.S. 2, 10 (1984)

  - "[P]er se prohibition is appropriate if anticompetitive forcing is likely. For example, if the Government has granted the seller a patent or similar monopoly over a product, it is fair to presume that the inability to buy the product elsewhere gives the seller market power." *Id.* at 16.

What's the issue?

- If the rules were that simple, they would be wrong, but clients could be counseled appropriately.
- But the rules are far from clear
  - DOJ/FTC don't follow them
  - Some courts don't follow them either
    - *But others do*
  - Plus, 35 U.S.C. § 271(d) applies a different standard to patent misuse claims
    - It does not apply to antitrust claims – or does it?
    - It does not apply to copyrights

What's the issue?

- Tying can be quite harmful
  - *Motion Picture Patents* example
    - Patents over film and projectors were used to obtain control over all motion picture production and distribution
- But tying is not "always or almost always" harmful
  - The cases where it creates incremental market power are rare
  - Tying arrangements are often supported by strong efficiency justifications
- So the lower courts have sought out ways to rebel against the per se rule, leading to splits on several issues

Five unresolved questions

1. Does 35 U.S.C. § 271(d) eliminate the presumption of market power from a patent only in misuse cases or does it apply to Sherman and Clayton Act cases as well?

- "Section 271(d) relates only to the defense of patent misuse as a defense to an infringement claim." *Grid Systems v. Texas Instruments*, 771 F. Supp. 1033, 1037 n.2 (N.D. Cal. 1991); *accord, e.g., ITS v. Kodak*, 125 F.3d 1195, 1241 n.7 (9th Cir. 1996)
  - This has been DOJ/FTC view
- Under 271(d), absent market power, a party "cannot be guilty of either antitrust violations or patent misuse . . . ." *Polysius v. Fuller*, 709 F. Supp. 560, 576 (E.D. Pa.), *aff'd mem.*, 889 F.2d 1100 (Fed. Cir. 1989); *see also Intergraph v. Intel*, 195 F.3d 1346, 1362-63 (Fed. Cir. 1999)

Five unresolved questions

2. If 271(d) does not apply to Sherman and Clayton Act cases, is there a presumption for tying purposes of market power from the possession of a patent?

1. "[I]f the Government has granted the seller a patent or similar monopoly over a product, it is fair to presume that the inability to buy the product elsewhere gives the seller market power." *Jefferson Parish,* 466 U.S. 2, 16 (1984)
2. "A patent does not of itself establish a presumption of market power in the antitrust sense." *Abbott Lab. v. Brennan*, 952 F.2d 1346, 1354 (Fed. Cir. 1991)

Five unresolved questions

3. Can market power for tying purposes be presumed from possession of a copyright?

- "In [*United States v. Loew's*, 371 U.S. 38, 44 (1962)] , the Supreme Court explained that [block booking] is illegal per se because the licensor by virtue of its copyright is presumed to have 'economic leverage sufficient to induce his customers to take the tied product along with the tying item.'. . . [U]nless and until the Supreme Court explicitly overrules [*Loew's* and *Paramount*], we must adhere to the rule they establish." *MCA TV, Ltd. v. Public Interest Corp.,* 171 F.3d 1265, 1278-79 (11th Cir. 1999)
- "[W]e find the pronouncement in *Loew's* to be overbroad . . . [and] reject any absolute presumption of market power for copyright or patented product . . . ." *A.I. Root v. Computer Dynamics*, 806 F.2d 673, 676 (6th Cir. 1986)

Five unresolved questions

4. To what extent, if at all, is evidence of justification admissible in a per se tying case?

- "We have … uniformly rejected similar 'goodwill' defenses for tying arrangements, finding that the use of contractual quality specifications are generally sufficient to protect quality without the use of a tying arrangement." *Jefferson Parish*, 466 U.S. at 25 n.42
- "We have recognized that antitrust defendants may demonstrate a business justification for an otherwise per se illegal tying arrangement." *Mozart v. Mercedes-Benz*, 833 F.2d 1342, 1348-49 (9th Cir. 1989)

Five unresolved questions

5. To what extent, if at all, must a plaintiff in a per se tying case show harm to competition in the tied product market?

- "[A tying] arrangement violates § 1 of the Sherman Act if the seller has 'appreciable economic power' in the tying product market and if the arrangement affects a substantial volume of commerce in the tied market." *Eastman Kodak v. ITS*, 504 U.S. 451, 461 (1992). "A claim that a tying arrangement is illegal per se eliminates the requirement that the plaintiff show an actual anti-competitive effect." *Amey, Inc. v. Gulf Abstract & Title*, 758 F.2d 1486, 1503 (5th Cir. 1985)
- "[A] tying claim must fail absent any proof of anti-competitive effects in the market for the tied product." *Wells Real Estate, Inc. v. Greater Lowell Bd. of Realtors*, 850 F.2d 803, 815 (1st Cir. 1988)

Where do we go from here?

- So, when a client with intellectual property rights asks whether she can condition a license on the licensee's agreement to take other products or services, what do you say?

Where do we go from here?

- The Supreme Court appears largely to have abdicated the antitrust function in recent years.
  - The Court now hears only ~85 cases of all kinds per term.
  - The last antitrust case was *Cal Dental* in May 1999, 3 years ago.
  - Review denials in *Digidyne*, *Microsoft* (direct appeal), others

Where do we go from here?

- D.C. Circuit in *Microsoft* missed a chance to help
  - Court devised a "platform software" exception purportedly based on "judicial inexperience" with (and unique aspects of) software production, but in fact based on basic distaste for the per se rule
    - "Platform software" exception improper under *Maricopa*, which says "judicial inexperience" may spare new practices but not new industries from the per se rule
  - Will we now see new exceptions for other "new" industries?
  - Continues lack of certainty affecting client advice
  - Why not just face up to the real problem: the per se rule is far too broad and applies to too many practices that are beneficial to consumers

Where do we go from here?

- In an ideal world, a statutory solution would be preferable.
- But can we rely on Congress to focus legislation only on the merits of particular IP/antitrust issues while avoiding the twists, turns, and baggage that interested parties will (appropriately) bring to bear before any legislation gets passed?
  - Or is the idea of a congressional solution too scary?

Where do we go from here?

- There is no really good answer
  - One possibility is continued disobedience by the lower courts
    - But the Supreme Court has rejected this approach many times. *E.g., de Quijas v. Shearson,* 490 U.S. 477, 484 (1989)
  - A better approach is for courts of appeals, like Posner in *Khan*, 93 F.3d 1358 (7th Cir. 1996), *rev'd*, 522 U.S. 3 (1997), to adhere to the per se rule and associated sub-doctrines, but strongly and pointedly invite Supreme Court review
    - D.C. Circuit in *Microsoft* missed this opportunity
- DOJ/FTC can help
  - An aggressive amicus program in the lower courts, and in the Supreme Court, may be the best vehicle to seek doctrinal repair